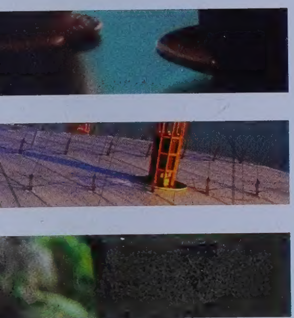
AR61

1999 ANNUAL REPORT

Winspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Form *follows* Function



Ainsworth

Form *follows* Function

First coined by the great architect Louis Sullivan, "form follows function" sets out a straightforward—though often overlooked—formula for achieving success in a complicated world. In the forest products industry, it means creating the structure and strategies that reflect market realities.

Ainsworth at a Glance

Ainsworth is a leading Canadian forest products company with a 45-year reputation for high-quality products and unsurpassed customer service. With operations in British Columbia and Alberta, Ainsworth co-manages more than 5.5 million hectares of productive timberlands that supply nearly all of the Company's fibre requirements.

Ainsworth is equipped with some of the most modern facilities in the industry, with nearly all of the Company's capital assets less than six years old. These state-of-the-art operations are centrally located in contiguous timber-supply areas, thereby ensuring the right log goes to the right mill. Products manufactured are marketed throughout the world and include oriented strand board (OSB), lumber, specialty plywood and veneer.

The Company's location provides advantageous transportation access to offshore markets and key North American destinations.

Ainsworth Lumber Co. Ltd. trades on the Toronto Stock Exchange (TSE) under the symbol ANS.

1
Abbotsford Finger-Joined Lumber Plant

This value-added plant takes residual products from the Clinton facility and upgrades them to high-quality, warp-resistant finger-joined studs preferred by builders and contractors across North America. Finger-joined studs from this facility consistently command a premium price over natural studs.

Abbotsford's production capacity is 55 million board feet.

2
Lillooet Veneer Plant

The recently completed upgrade to the Lillooet veneer plant will make it one of the most efficient manufacturers of high-quality veneer in the industry. Over 60% of the veneer produced is consumed in the Savona specialty plywood product line. The remaining product is sold to specialty plywood producers and laminated veneer lumber (LVL) manufacturers. Due to the modernization initiative, Lillooet's production capacity has been increased to 215,000 msf-3/8".

3
100 Mile House OSB Plant

This facility was built in 1994 and is recognized as an industry leader in quality. Designed specifically for the Japanese market, 100 Mile House is now the leading supplier to Japan.

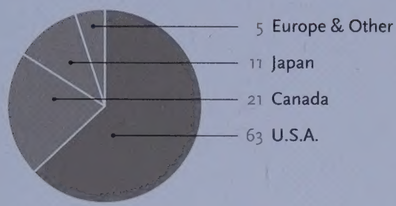
100 Mile House's production capacity has been increased to 385,000 msf - 3/8" due to continuous improvement programs.

4
Clinton Sawmill

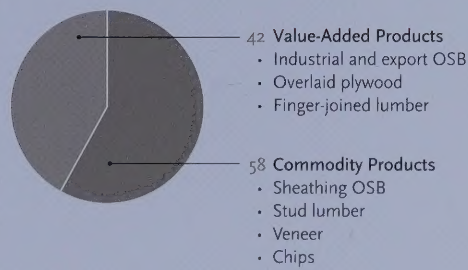
The consolidation of three sawmills into one highly efficient and flexible mill has resulted in increased economies of scale and improved lumber recovery. State-of-the-art equipment is in place, enabling the flexibility to produce new products as future markets develop.

Due to the modernization initiative, Clinton's production capacity has been increased to 225 million board feet.

Sales Revenue by Market, 1999
by percentage



Commodity and Value-Added Sales, 1999
by percentage



Diverse Global Markets

A long track record for quality, innovation and customer satisfaction has secured a diversity of expanding markets for Ainsworth's commodity and value-added products worldwide.

5

Savona Specialty Plywood Mill

This specialty softwood plywood mill has the largest share of the overlaid concrete form market in North America. Ainsworth Pourform 107® leads in volume production and has an estimated market share in excess of 80% in Canada and 50% in the U.K. Pourform HDO®, our flagship product from the Savona plant, enjoys an estimated 40% share of the U.S. market. These high-performance products are used in concrete-forming systems, high-rise and residential construction, sports complexes and highway infrastructure.

Due to the modernization initiative, Savona's production capacity has been increased to 155,000 msf - 3/8".

6

Grande Prairie OSB Plant

This plant, which began production at the end of 1995, is one of the lowest cost producers in North America, with a production capacity that has been increased to 580,000 msf - 3/8" due to continuous improvement programs. Ainsworth is now taking advantage of this facility's highly flexible manufacturing processes to increase production of export and industrial grade OSB.

7

Grande Prairie OSB Plant— Second Line

Planning is under way for a second line alongside the existing OSB plant at Grande Prairie. This new facility will focus on specialty products, particularly for the industrial and export markets. With a planned capacity of 400,000 msf - 3/8", the Grande Prairie second line is expected to begin production during the third quarter of 2001.

8

High Level OSB Plant

Currently under construction in a cooperative effort with Grant Forest Products, this facility will be the world's largest and lowest cost producer of commodity OSB, with a planned annual capacity of 900,000 msf - 3/8". Start-up is scheduled in the latter part of 2000.

Market Forces

Responding vigorously to market realities, Ainsworth has modernized and expanded its operations, capitalizing on advanced manufacturing technologies that meet the rapidly changing demands of customers worldwide.
page 12

Premium Products

As well as serving the broad-based commodity market, Ainsworth has established dominant positions in value-added niche markets that help stabilize profits through market cycles.
page 16

Natural & Human Resources

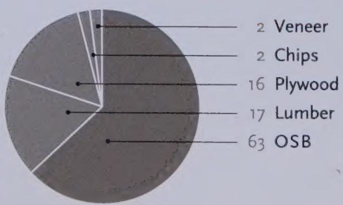
With its extensive timber rights, skilled and motivated team and efficient information flow, Ainsworth maintains high environmental and safety standards, and honours its tradition of providing exceptional service and flexibility.
page 20

1999 A Year

- Ainsworth experienced a marked return to profitability in 1999, with net earnings rising to $23.6 million ($1.62 per share) compared to a net loss of $9.5 million ($0.65 per share loss) in 1998.
- Sales revenue increased in 1999 by $84.3 million (24%) over 1998, powered by robust domestic market conditions, the Company's strategic modernization initiative and a continued focus on expanding export and industrial markets. The consolidated gross margin also increased over the prior year, from 22% to 35%.
- EBITDA (earnings before interest, tax, depreciation and amortization) increased more than twofold in 1999, rising from $66 million in 1998 to $133.2 million.
- US$33.5 million in long-term debt was repurchased in 1999, nearly three times as much as in the previous year. Charges to income resulting from the repurchases totalled $11.4 million. Without these charges, net income in 1999 would have been $30.8 million ($2.11 per share). The debt repurchases will reduce future interest costs by approximately $6.0 million per year at current exchange rates.

Years ended December 31 (dollars in millions, except per-share amounts)	1999	1998
Operating results		
Net sales	$ **433.4**	$ 349.1
Cash flow from operations	**82.8**	17.4
Net income (loss)	**23.6**	(9.5)
Financial position		
Working capital	**36.5**	38.7
Total assets	**467.2**	479.0
Shareholders' equity common	**100.5**	76.9
Capital expenditures	**39.3**	48.6
Common share data		
Earnings (loss) per share *(in dollars)*	**1.62**	(0.65)
Shareholders' equity per share *(in dollars)*	**6.91**	5.29
Common shares outstanding year-end position	**14,544,800**	14,544,800

Sales Revenue by Product Line, 1999
by percentage



Ainsworth Shipments, 1999

	Volume		Sales (000's)
OSB	920,100	msf - 3/8"	$ 272,000
Lumber	150,900	mfbm	73,600
Veneer	28,600	msf - 3/8"	7,100
Plywood	107,500	msf - 3/8"	69,600
Chips	135,600	bdu	11,000

# of Vigorous Performance

In 1999 Ainsworth returned to marked profitability as we began to reap the benefits of our transformation into a more innovative, market-driven company, competing dynamically on the world stage. The bold investments in consolidating and modernizing our operations, featured in the 1998 annual report, are paying off. Sales in 1999 rose by 24% over 1998, and net earnings rose to $23.6 million ($1.62 per share) compared to a net loss of $9.5 million ($0.65 per share loss) in the prior year. And this is only the beginning.

Our goal is quite simple: growth and sustainable profitability—despite a challenging environment of fierce international competition, stricter regulation, rapidly changing customer demands and ongoing market cycles. This is the reality of how our world functions. Therefore, to achieve our goal we must be a strategically leaner, larger, smarter company—a form that we are fast attaining.

Growing share of diverse markets

Our strategy is straightforward and decisive: we are developing a healthy product mix, focusing

increasingly on value-added products engineered to satisfy the demands of quality-conscious customers in varied markets. At the same time, we are optimizing production efficiencies by building leading-edge facilities and cultivating both our natural and human resources. In essence, we are combining the economies of scale of producing for the commodities market with the value-added opportunities of the specialty market. Higher-end specialty products attract a growing share of diverse geographical and sectoral markets and thus help buffer our bottom line from the forest industry's inevitable ups and downs.

We are also closely monitoring the performance of our solid wood operations, which returned to profitability late in the year. In dimension lumber, we are continuing to reduce unit production costs while maintaining our reputation for top quality. On the plywood side, we are reviewing our specialty production to optimize profitability and develop new market sectors.

Meanwhile, we continue to reduce our long-term debt—by US$33.5 million in 1999, nearly three times as much as in the previous year, taking it down to US$186.5 million.

Last but not least, we have created integrated production and marketing information systems

that give us the insight and savvy to realize our full potential. In short, we are discarding the old industry paradigm and breaking further out of the box.

Groundwork for consistent profitability

Despite our success, not for an instant are we allowing ourselves to become complacent. We know that last year's performance was in large part driven by substantial growth in the U.S. commodity market for oriented strand board (OSB) — a trend which we had accurately anticipated and geared up for, but one that we know will not persist indefinitely. Looking at cycles more broadly and at the past five years as a whole, we also recognize that we have just managed to break even. And so the transformation at Ainsworth continues, as we proceed to lay the groundwork for further growth and consistent profitability.

Construction of a new, continuous-press OSB plant in High Level, Alberta, has already begun, and operation will commence in the fourth quarter of 2000. This new mill raises the bar dramatically by achieving unprecedented economies of scale and production efficiencies, with a rated capacity of approximately 900 mmsf - 3/8" per year. Far

exceeding any existing OSB mill in the world, it will enable Ainsworth — along with our partner, Grant Forest Products — to realize the lowest unit costs in the industry.

Innovative production proposals — sensitive as well to environmental and employment concerns — helped us to secure all of the last three awards for timber resources in the province of Alberta. This additional wood fibre will allow us to expand our existing OSB facility at Grande Prairie, Alberta, and add a small hardwood sawmill. The second line at Grande Prairie will produce a further 400 – 450 mmsf - 3/8" per year of OSB and specialty products by the third quarter of 2001. It will also give us the flexibility to create a unique panel that fills a niche in the furniture industry by combining the strength and durability of OSB with the smooth surface of particleboard. A laminating line will be installed so that decorative laminates can be applied to this new product, adding even further value to the overall operation.

A similar strategy of combining commodity production with the flexibility to turn out higher-yielding specialty products continues to pay off handsomely at our plant in 100 Mile House, B.C. Six years ago, we developed the world's first line specifically geared to produce OSB dimensions

for the Japanese market. Today, that move has enabled us to become the number-one OSB supplier in Japan, a market where the return to growth is forecast to continue. We are committed to further expanding our high-end sales in Japan, reinforcing our strategy of cushioning us from North America's market cycles.

All in all, Ainsworth is poised to become one of the largest international producers of oriented strand board, with a particularly strong position in the higher-end export and industrial markets.

A new kind of forest products company

Throughout 1999, in keeping with our growth and ongoing development, we strengthened the operational and marketing focus of our management team by retaining the services of a number of highly regarded individuals. We also continued to improve our exemplary safety record—one more marker that has helped establish Ainsworth as an industry leader.

Similarly, during the past year we completed the development of a comprehensive system for planning and assessing our harvesting and reforestation operations in keeping with our forest management, land use and environmental responsibilities. This "Woodlands Information

Management System" is being implemented during 2000 throughout the Company's extensive woodlands in B.C. and Alberta. At the same time, we are fully complying with provincial forest practices codes and standards and expect to receive Environmental Management System certification (14001) in the year 2000 from the International Standards Organization (ISO).

Ainsworth has long been respected as a responsible, reliable and customer-driven supplier of higher-end quality products. We continue this tradition by injecting a renewed spirit of bold innovation. In meeting this challenge, we must thank our employees for their exceptional support during the past few years of remarkable transition. With them, we look to 2000 and beyond with optimism and dedication to delivering our vision of a new kind of forest products company, one whose form responds vigorously to how the world functions.

On behalf of the Board of Directors,

Allen Ainsworth
President & Chief Operating Officer

Brian Ainsworth
Chairman & Chief Executive Officer

A company must act

like a winning long-distance runner: cultivate not just strength, but the right kind of strength (plus endurance, agility and focus) to accurately predict and adapt to how the challenges keep evolving. In other words, form must follow function.

MARKET FORCES

Functioning in the Real World

The market forces for forest

Gone are the days when Canadian producers could predictably gain profits by increasing volume, reducing costs and counting on a seller's market. Today's customers demand not only reliable supplies and attentive service but also higher environmental standards and a greater range and flexibility of ever-evolving "smarter" products.

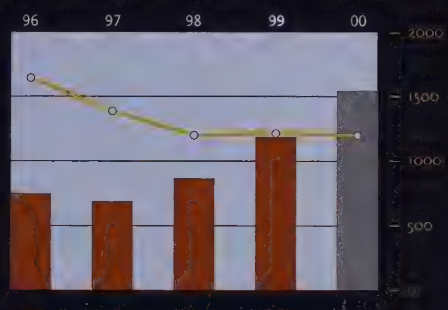
The truth is that for years the forest industry has been hindered by old ways of thinking and hammered by high stumpage rates and inevitable market cycles. Trade barriers loom large, international competition is stiff, and access to timber supplies is shrinking.

Volume and efficiency remain critical. However, to thrive in today's world—and also into the future—producers must be *market driven*. And not merely by reciting those words, but by implementing strategies that respond vigorously and creatively to how the market actually functions.

PRECEDING PAGES:
Known for flexibility in meeting varied customer needs, Ainsworth created the world's first mill capable of manufacturing oriented strand board (OSB) specifically designed for the Japanese construction market. In Japan even modern structural housing components are geared to the tatami mat's traditional three-foot dimension.

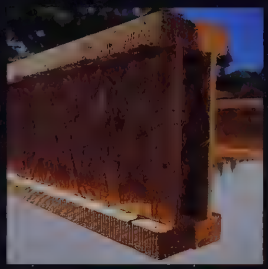
products have changed forever.

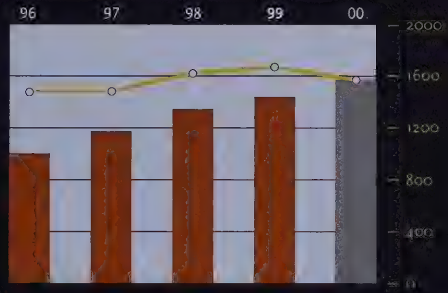
Ainsworth OSB in Japan



Ainsworth's high-quality products and loyalty to customers in good times and bad have secured it an increasingly dominant market position in Japan (nearly 65% in the case of OSB). The Company will continue profiting as OSB—a technologically advanced product made from a sustainable resource—inevitably captures a greater portion of that country's huge demand for wood construction materials. Currently, Japan relies on plywood made from exotic hardwoods, the long-term supply of which is highly questionable due to environmental constraints.

I-Joist Floor Systems





Ainsworth supplies a substantial and growing share of the OSB webstock used for manufacturing I-joists, the primary component of engineered floor systems. These systems, which use another Ainsworth OSB component called rim board, have already captured over a third of the North American residential construction market.

PREMIUM PRODUCTS

A Form for Stable Prosperity

A tough environment offers

Serving the construction industry's broad-based commodity market remains profitable—that is, when your operations rank among the most modern and efficient in the world. But, increasingly, an entrepreneurial company must also establish premium niches within existing markets and develop new ones for innovative, value-added products. Such strategies provide a higher return and reduce the impact of downcycles.

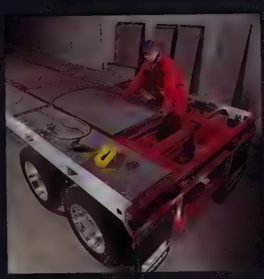
In the forest industry, a successful few are capitalizing on rapidly changing construction techniques and market demands by revolutionizing their operations with advanced manufacturing technologies that satisfy these demands and utilize sustainable resources.

In other words, by mobilizing the right operations, resources and know-how—plus having the right ideas—a form is created that provides for stable prosperity.

PRECEDING PAGES:
Ainsworth Pourform® overlaid plywood for concrete-forming applications was selected to build the Millennium Dome in London, England, along with many other high-profile projects throughout the world.

remarkable opportunities.

Having secured all three of the last awards for timber resources in Alberta, Ainsworth will boost the existing capacity of its plant at Grande Prairie. As well as producing commodity OSB, the second line will have the flexibility to manufacture a unique panel that combines the desirable structural properties of OSB with the smooth surface of particleboard. This will create a new value-added niche for Ainsworth in the furniture manufacturing market. At High Level, Alberta, in partnership with Grant Forest Products, Ainsworth is also building what will be the largest and most efficient OSB plant in the world.



A specialty plywood manufactured in various grades to meet particularly high standards, Ainsworth Pourform® is used to form the concrete of high-rise buildings and other major structures. Made from veneers produced at Ainsworth's plant in Lillooet, B.C., and then manufactured at its Savona plant, Pourform® has the largest market share in North America and is also widely used in Europe and elsewhere.

Valued for its exceptional strength, dimensional stability and durability, Ainsworth's finger-joined stud lumber consistently commands a premium price over natural studs. Produced at the company's Abbotsford, B.C., plant, this value-added product is made from residual materials from the Company's state-of-the-art sawmill in the B.C. Interior.

While serving the large commodity market, Ainsworth is also developing niche products that help sustain profitability through market cycles. Another example of this strategy is Transdeck® trailer flooring, a veneer-based panel specifically engineered for use in flatbed trailers. Similarly innovative products are under development to serve additional markets in commercial transportation and other areas, such as furniture manufacturing.


NATURAL & HUMAN RESOURCES

Profiting from a Culture of Value

Ainsworth has responded to the

In capitalizing on technology and market conditions, we have acquired the resources necessary to excel. We have secured timber supplies throughout western Canada, allowing us to focus increasingly on converting sustainable resources into engineered products with high technology content and higher value. Equally important, we have attended to our human resources, encouraging innovation and securing new expertise.

We have also streamlined information systems so that we can respond quickly to the constant ebb and flow, and challenge ourselves to do better.

And we have one other resource, one that is harder to define—unless, that is, you ask our customers and partners. They will tell you that Ainsworth actually *is* different. That at Ainsworth we've always taken pride in working cooperatively, from marketing to manufacturing, to provide exceptional quality and service to all our customers. Yes, the world has changed. But the form we take in following the market's function reflects a further evolution of our long-standing culture of value.

PRECEDING PAGES:
Ainsworth has developed a comprehensive environmental and land-use management plan for its extensive forest holdings in western Canada. Responsible stewardship and diligence in caring for all of its resources—natural, human, financial and otherwise—are key to the Company's success.

new realities of the marketplace.

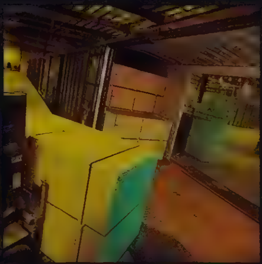
An example of Ainsworth's use of alternative silviculture techniques. To address concerns about views from a nearby highway, this area at Enterprise Creek in the Company's Lillooet Woodlands operation was harvested by cable yarding to provide a uniform, selectively cut shelterwood.

In one of several such initiatives, approximately 25 First Nations horse loggers in the Cariboo region of B.C. are working under contract with Ainsworth to harvest timber for the Clinton and 100 Mile House facilities. Horses skid the logs to central skid trails, where they are picked up by a rubber-tired log forwarder that is also used to load the trucks. Horse logging provides a relatively high number of jobs per unit of timber harvested and is one way of minimizing the impact on the land base.

Testing for ambient air quality adjacent to a dust collection system at the 100 Mile House OSB facility. From operational management and marketing right through to the plant floor, Ainsworth has attracted and retained a highly skilled and highly motivated team of people dedicated to the Company's values for product quality and customer service. Safety is also a top priority at Ainsworth, and in 1999 the Company experienced its best performance ever, achieving one of the best records in the industry.

"Over the last few years, Boise Cascade Corporation has received exceptional service from Ainsworth, enabling us to respond quickly to a very dynamic market. There have been critical weekend situations, for example, when I've called their 100 Mile House plant directly, explained our situation and asked them to change their mill production, and then arranged for trucks—all before Monday, when I could make an official sale with their sales department. This high level of trust and cooperation makes for superior performance."

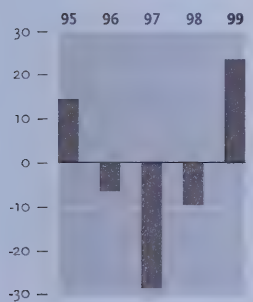
—**Taylor Richerson**
Timber & Wood Products Division
Western Oregon Region
Boise Cascade Corporation



By responding vigorously

to the cyclical and competitive realities of the forest products industry, Ainsworth has evolved into a form that is strategically leaner, larger and smarter. Ongoing growth and sustainable profitability are now within our grasp.

Net Income
in millions of dollars



Overview

Certain statements in Management's Discussion and Analysis constitute "forward-looking statements" that involve known business and economic risks, uncertainties and other factors. These factors may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and may affect the future results as set forth in this discussion and analysis.

Ainsworth is principally engaged in the production of oriented strand board (OSB), lumber, specialty plywood, veneer and wood chips for sale to markets in Canada, the United States, Asia and Europe. The Company's operating results are affected by prevailing market prices for its principal products, as well as the Company's production volumes and costs of production. Sales of the Company's products, other than wood chips, are affected by housing starts, commercial and industrial construction activity, and the repair and remodelling market in North America and Japan. These industries are cyclical and are affected by numerous factors, including housing supply and demand, interest rates, credit availability, tax policy and general economic conditions. Sales of wood chips (which are used to produce pulp) are dependent upon the demand for newsprint and other paper products, which in turn are affected by advertising expenditures and general economic conditions.

The following table summarizes certain results of operations of the Company:

Years ended December 31 (dollars in millions)	1999	1998	1997
Net sales			
Lumber	**$ 73.6**	$ 75.5	$ 104.8
Specialty plywood	**69.6**	57.1	50.7
Veneer	**7.1**	7.3	11.3
OSB	**272.0**	199.8	127.8
Wood chips	**11.0**	9.4	13.6
Total	**433.4**	349.1	308.2
Cost of products sold			
Lumber	**67.5**	71.5	96.4
Specialty plywood	**62.7**	55.6	46.3
Veneer	**2.4**	9.0	9.7
OSB	**140.0**	125.8	122.1
Wood chips	**11.0**	9.4	13.6
Total	**283.6**	271.3	288.1
Gross margin	**149.7**	77.8	20.1
Selling and administration	**(21.3)**	(16.2)	(12.2)
Amortization of capital assets	**(34.6)**	(28.8)	(27.1)
Operating earnings (loss)	**93.8**	32.8	(19.2)
Interest and other income and expense	**4.5**	2.8	5.9
Finance expense	**(54.7)**	(47.8)	(32.1)
Income (loss) before income taxes	**43.6**	(12.2)	(45.4)
Income tax recovery (expense)	**(20.0)**	2.7	17.1
Net income (loss)	**$ 23.6**	$ (9.5)	$ (28.3)

The following table summarizes additional financial information:

Years ended December 31 (dollars in millions)	1999	1998	1997
EBITDA *(earnings before interest, tax, depreciation and amortization)*			
Lumber	**$ 3.2**	$ 1.4	$ 6.6
Specialty plywood	**4.2**	(0.4)	3.6
Veneer	**4.5**	(2.0)	1.4
OSB	**121.3**	67.0	3.5
Total	**$ 133.2**	$ 66.0	$ 15.1
Cash from (used for) operations*	**$ 94.8**	$ 24.4	$ (12.1)
Net additions to capital and other assets	**41.1**	50.4	37.6
Total assets	**467.2**	479.0	505.4
Long-term debt	**264.1**	330.8	324.5
Shareholders' equity	**100.5**	76.9	86.4
Product sales volumes			
Lumber *(mmfbm)*	**150.9**	162.9	227.3
Specialty plywood *(mmsf - 3/8")*	**107.5**	88.5	84.0
Veneer *(mmsf - 3/8")*	**28.6**	37.3	55.4
OSB *(mmsf - 3/8")*	**920.1**	827.2	749.5
Wood chips *(mbdu)*	**135.6**	131.0	195.1

*Before changes in non-cash operating working capital.

The Company exports the majority of its products. A significant portion of such export sales is denominated in United States dollars. Therefore, a change in the exchange rate for the Canadian dollar against the United States dollar affects the Canadian dollar amounts realized. Geographic distribution of sales revenue was as follows:

Years ended December 31 (in percent)	1999	1998	1997
Lumber			
Canada	**35.7**	30.3	39.9
United States	**56.3**	62.4	49.1
Japan	**8.0**	7.3	11.0
Specialty plywood			
Canada	**38.4**	34.5	35.8
United States	**36.0**	41.2	35.2
Europe and other	**25.4**	24.2	27.9
Japan	**0.2**	0.1	1.1
Veneer			
Canada	**19.4**	25.9	27.8
United States	**80.6**	74.1	72.2
OSB			
Canada	**9.0**	13.6	16.2
United States	**74.2**	71.4	61.0
Japan	**15.0**	13.4	17.2
Europe and other	**1.8**	1.6	5.6

The availability of an economical timber supply is one of the most important factors affecting the profitability of forest products companies. In British Columbia, the Company is able to supply approximately 90% of current fibre needs for its solid wood operations and 70% of fibre needs for its 100 Mile House OSB operation from three Forest Licences and one Pulpwood Agreement. The Company's Deciduous Timber Allocation in Alberta is able to supply at least 70% of the fibre requirements of the Grande Prairie OSB mill.

The cost of timber in British Columbia remains high as a result of stumpage fees being higher than those in competing jurisdictions and higher logging costs associated with compliance with the Forest Practices Code. The high cost of fibre has negatively affected the Company's lumber, veneer and plywood operations and has had a materially adverse effect on the operating results. Recent movement by the government of British Columbia to reduce the cost of fibre has been welcomed by the industry, and efforts to achieve further cost reductions are ongoing.

In 1999 the Company consumed 1,099,668 m^3 of softwood timber and 1,358,298 m^3 of hardwood as compared to 1998's values of 958,036 m^3 of softwood timber and 1,302,999 m^3 of hardwood.

Lumber

Effective April 1, 1996, the Softwood Lumber Agreement (SLA) imposed a 14.7 bfbm quota on softwood lumber products that can be shipped from Canada to the United States in any quota year ended March 31 without payment of an export fee. Volumes above this amount are subject to a US$53 per mfbm (lower fee base) export fee on the next 650 mmfbm, US$106 per mfbm (upper fee base) export fee on the next 110 mmfbm and a US$146 Quota Penalty on any additional volumes. The volume of export-fee-free lumber and lumber subject to US$53 per mfbm and $106 export fees has been allocated by the Department of Foreign Affairs and International Trade of the Canadian federal government among Canadian producers according to their historical levels of U.S.-bound shipments. If a producer does not ship its US$53 and $106 per mfbm duty volume, this volume may be reduced by 20% the following year.

As a result of the SLA, the Company's sales volumes into the U.S. are limited by the quota allocation. All other sales must be into Canadian or export markets, primarily Japan. Sales to Japan are limited by the volume of premium lumber that can be produced at the facilities, resulting in a significant volume of lumber being sold in Canada. Many other producers in British Columbia are in a similar situation, resulting in an excess supply in Canada and correspondingly discounted prices as compared to the U.S. Compounding this problem is the fact that B.C. stumpage is based primarily on U.S. market prices, and therefore even though a producer may not be able to participate in the U.S. market its stumpage is high because it is based on these prices.

In 1999, U.S. prices were strong due to limitations in supply because of the SLA and because of high housing starts. The Company shipped lumber to the U.S. evenly throughout the year based on its quota and sold lumber into Canada opportunistically. Sales to Japan were limited to the volume produced. Mill production in 1999 was much lower than anticipated and lower than is expected in 2000. Had the mill produced higher volumes, periodic curtailment could have occurred due to the Canadian discount. In 2000 the plan is to increase production, in particular the production of Japanese grade lumber. If this is done, curtailment should not be required. U.S. prices in 2000 are projected to be strong because of continuing high housing starts and limitations in supply because of the SLA.

Specialty plywood

The Company's Savona, B.C., operation produces overlaid plywood products used as concrete-forming material for high-rise construction, dams and highway infrastructure. The plant also produces overlaid panels for highway signs and transportation panelling for flatbed trailers. Interest rates and their impact on infrastructure projects largely drive the Company's specialty plywood markets for commercial construction activity. Prices for specialty overlaid plywood are affected by the level of commercial construction and infrastructure development activity in the Company's primary markets, namely Canada, the United States and the United Kingdom. The Company is the only regular producer of specialty overlaid softwood plywood in Canada, and there is only one other regular supplier operating in the United States. The Company believes that the high quality and service standards demanded by specialty plywood customers, the cost associated with upgrading equipment to meet the higher-quality requirements and the limited availability of high-quality Douglas fir veneer logs will act as deterrents to entry for new competition.

Veneer

The Lillooet, B.C., veneer plant supplies the Savona specialty plywood facility with Douglas fir veneer for making overlaid plywood. These transfers accounted for approximately 78% of the Lillooet facility's 1999 production. The remaining 22% was either pure spruce veneer sold to producers of value-added plywood or a spruce/pine/fir (SPF) mix sold to commodity sheathing plywood producers. Commodity sheathing plywood prices are affected by the same factors that affect prices for softwood lumber except that there is no impact from the Softwood Lumber Agreement. In 1999, the Company focused its veneer marketing efforts on higher-margin specialty products including dry veneer, value-added and engineered wood products such as hardwood plywood, laminated veneer lumber and other similar products—for example, veneer blanks used to produce skis, snowboards and exercise equipment.

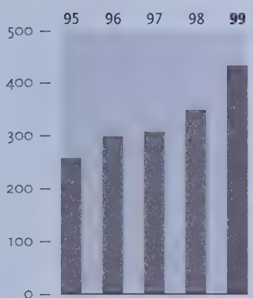
OSB

The Company believes that its large, modern OSB plants with their diversified product lines give it an advantage over many other producers. The Company sells a significant portion of its production into the industrial and export markets, where there are generally higher prices and margins than in North American commodity markets. Industrial products include tongue-and-groove flooring panels, webstock for wooden I-joists, rimboard, industrial furniture substrate and bullnose stair treads. Through 1998 and 1999, the majority of the production from the 100 Mile House mill was sold into industrial and Japanese markets. Production from the Grande Prairie mill was sold primarily in the North American commodity market and industrial markets. Each of the mills can manufacture products for all of the Company's markets, and production decisions are made to maximize overall margins. During 1998 and 1999, the Company has increased sales of industrial products. Japanese sales in 1998 and 1999 were generally lower than expected due to a prolonged slowdown in demand for forest products resulting from a weakened economy. Demand slowly improved throughout the year, however, and a steady increase in sales is expected in 2000.

Wood chips

Wood chips are a by-product of the Company's production of lumber and veneer. Chip sales are recorded as a separate revenue item. Since chips are a by-product, the related cost of products sold is recorded at an amount equal to the revenue from chip sales, and deducted from the cost of products sold of the associated lumber or veneer operation. High chip prices have the effect of lowering the cost of products sold of the associated lumber or veneer operations.

Sales
in millions of dollars



Fiscal year ended December 31, 1999, compared to the fiscal year ended December 31, 1998

Sales and cost of products sold

General

Sales in the year 1999 were $433.4 million compared to $349.1 million in the year 1998, representing an increase of $84.3 million or 24%.

Cost of products sold in 1999 was $283.6 million compared to $271.3 million in 1998, representing an increase of $12.3 million or 5%. The gross margin in 1999 was 35% compared to 22% in 1998.

Lumber

Sales of lumber in 1999 were $73.6 million compared to $75.5 million in 1998, representing a decrease of $1.9 million or 3%. This decrease was the result of a 7% decrease in unit volume from 162.9 mmfbm in 1998 to 150.9 mmfbm in 1999. Unit volume decreased in 1999 compared to 1998 due to the closure of the 100 Mile House sawmill in mid-1998 and the lower than anticipated production at Clinton. At the beginning of the year it was expected that the Clinton sawmill would be able to ramp its production to more than 200 mmfbm; however, this level was not achieved. A 5% increase in selling price offset some of the sales volume decrease.

Cost of lumber products sold in 1999 was $67.5 million compared to $71.5 million in 1998, representing a decrease of $4.0 million or 6%. The decrease was due to a 7% decrease in unit sales volume related to the closure of the 100 Mile House sawmill and lower than anticipated 1999 production at Clinton. Costs remained high due to lower than expected lumber recoveries, high stumpage charges, costs associated with compliance with the Forest Practices Code and additional operating costs due to higher than anticipated repair and maintenance costs. Lumber gross margin in 1999 was 8% compared to 5% in 1998.

Specialty plywood

Sales of specialty plywood in 1999 were $69.6 million compared to $57.1 million in 1998, representing an increase of $12.5 million or 22%. This increase was due to a 21% increase in unit volume from 88.5 mmsf - 3/8" in 1998 to 107.5 mmsf - 3/8" in 1999. The increase in unit volume was due to having the full-year benefit of 1998 capital upgrades and capacity improvements.

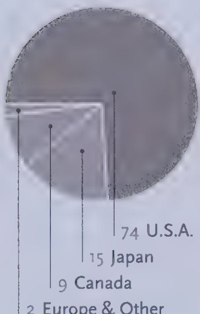
Cost of specialty plywood products sold in 1999 was $62.7 million compared to $55.6 million in 1998, representing an increase of $7.1 million or 13%. This increase was attributable to a 21% increase in unit sales volume and offset by a 7% decrease in unit costs arising from increased production levels. Specialty plywood gross margin in 1999 was 10% compared to 3% in 1998.

Veneer

Sales of veneer to third parties in 1999 were $7.1 million compared to $7.3 million in 1998, representing a decrease of $0.2 million or 2%. This decrease was due to a 23% decrease in unit volume from 37.3 mmsf - 3/8" in 1998 to 28.6 mmsf - 3/8" in 1999, offset by an average price increase of 28% due in part to selling dry veneer. The decrease in unit volume is due to an increase in internal consumption of veneer in our plywood operations. Additionally, during the first half of the year the plant was not producing at the levels anticipated.

Cost of veneer products sold in 1999 was $2.4 million compared to $9.0 million in 1998, representing a decrease of $6.6 million or 73%. This decrease was mainly due to a 23% decrease in unit sales volume and a 65% decrease in costs. In 1999 costs were low because external veneer costs are credited with the entire chip revenue for all veneer produced, although only 22% of the veneer produced that year was sold externally. In 1998 costs were high because of ramp-up costs and high log costs. The veneer gross margin in 1999 was 66% compared to (23)% in 1998.

Geographic Sales of OSB, 1999
by percentage



OSB

Sales of OSB in 1999 were $272.0 million compared to $199.8 million in 1998, representing an increase of $72.2 million or 36%. This increase was due to an 11% increase in unit volume from 827.2 mmsf - 3/8" in 1998 to 920.1 mmsf - 3/8" in 1999, and an average price increase of 22%. The increased unit volume was due to capacity improvements at the 100 Mile House facility and at the Grande Prairie mill. By the end of 1999, both facilities were running at 110% of their original design capacities.

Cost of OSB products sold in 1999 was $140.0 million compared to $125.8 million in 1998, representing an increase of $14.2 million or 11%. This increase was due to an 11% increase in unit sales volume. The OSB gross margin in 1999 was 49% compared to 37% in 1998, primarily reflecting the 22% increase in selling prices.

Wood chips

Sales of wood chips to third parties in 1999 were $11.0 million compared to $9.4 million in 1998, representing an increase of $1.6 million or 17%. This increase was the result of a 4% increase in unit volumes and a 13% increase in chip prices. Unit volume for chips was 135.6 mbdu in 1999 compared to 131.0 mbdu in 1998.

Selling and administration

Selling and administration expense in 1999 was $21.3 million compared to $16.2 million in 1998, an increase of $5.1 million or 31%. This increase was mainly attributable to salary increases, bonuses, professional fees, information technology costs and sales and marketing.

Amortization of capital assets

Amortization of capital assets in 1999 was $34.6 million compared to $28.8 million in 1998, representing an increase of $5.8 million or 20%. This increase was mainly due to an 11% increase in OSB production (OSB facilities are amortized on the units-of-production method, based on the estimated useful life of the assets at normal production levels over 15 years), and increased amortization as solid wood facilities experienced a full year of operation since their modernization.

Finance expense

Finance expense in 1999 was $54.7 million compared to $47.8 million in 1998, representing an increase of $6.9 million or 14%. The Company's senior debt was issued in July 1997 and totalled US$232.0 million. In 1998 it was reduced to US$220.0 million, and in 1999 it was further reduced by US$33.5 million to US$186.5 million. The finance expense reflects interest on the notes at 12.5%, non-cash charges for the amortization of financing costs and debt discount of $5.2 million (1998: $3.7 million), as well as a loss in 1999 on redemption of the debt of $5.7 million (in 1998 there was a gain of $2.0 million). Finance expense is also negatively affected by a decline in the Canadian dollar against the U.S. dollar, since interest payments on the long-term debt are made in U.S. dollars. In addition, increased amortization of deferred foreign exchange losses on the long-term debt principal also negatively affected total finance expense. Annual cash interest charges at current exchange rates would be approximately $34 million.

Income taxes

Income tax expense in 1999 was $20.0 million compared to a recovery of $2.7 million in 1998 as a result of the improved financial results.

Fiscal year ended December 31, 1998, compared to the fiscal year ended December 31, 1997

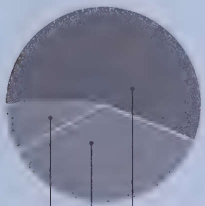
Sales and cost of products sold

General

Sales in the year 1998 were $349.1 million compared to $308.2 million in the year 1997, representing an increase of $40.9 million or 13%.

Cost of products sold in 1998 was $271.3 million compared to $288.1 million in 1997, representing a decrease of $16.8 million or 6%. The gross margin in 1998 was 22% compared to 7% in 1997.

Geographic Sales of Lumber, 1999
by percentage



Lumber

Sales of lumber in 1998 were $75.5 million compared to $104.8 million in 1997, representing a decrease of $29.3 million or 28%. This decrease was the result of a 28% decrease in unit volume from 227.3 mmfbm in 1997 to 162.9 mmfbm in 1998. Unit volume decreased in 1998 compared to 1997 due to the closure of the 100 Mile House sawmill in mid-1998 and the ramp-up of the Clinton sawmill subsequent to the completion of its modernization program in mid-1998. The shift in sales to the U.S. in 1998 as compared to 1997 sales was a direct result of the reduced sales volumes overall, weaker Japanese and Canadian markets and therefore a relatively higher percentage of lumber being sold in the U.S. under the Softwood Lumber Agreement.

Cost of lumber products sold in 1998 was $71.5 million compared to $96.4 million in 1997, representing a decrease of $24.9 million or 26%. The decrease was due to a 28% decrease in unit sales volume related to the closure of the 100 Mile House sawmill, and the scheduled downtime resulting from the modernization program undertaken and completed in 1998 at the Clinton sawmill. Costs remained high due to high stumpage charges, costs associated with compliance with the Forest Practices Code and additional operating costs due to the ramp-up of the modernized Clinton sawmill. Lumber gross margin in 1998 was 5% compared to 8% in 1997, as a result of the higher costs mentioned above.

Geographic Sales of Plywood, 1999
by percentage

Specialty plywood

Sales of specialty plywood in 1998 were $57.1 million compared to $50.7 million in 1997, representing an increase of $6.4 million or 13%. This increase was due to a 5% increase in unit volume from 84.0 mmsf - 3/8" in 1997 to 88.5 mmsf - 3/8" in 1998, and a price increase of 7%. The increase in unit volumes was primarily due to capital upgrades and capacity improvements during the first half of 1998.

Cost of specialty plywood products sold in 1998 was $55.6 million compared to $46.3 million in 1997, representing an increase of $9.3 million or 20%. This increase was attributable to a 5% increase in unit sales volume, and additional operating costs associated with ramp-up following completion of the 1998 capital upgrade program at the Savona plant. Specialty plywood gross margin in 1998 was 3% compared to 9% in 1997.

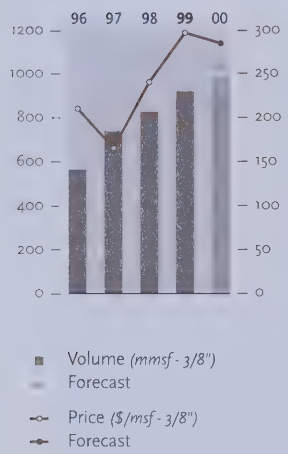
Veneer

Sales of veneer to third parties in 1998 were $7.3 million compared to $11.3 million in 1997, representing a decrease of $4.0 million or 35%. This decrease was due to a 33% decrease in unit volume from 55.4 mmsf - 3/8" in 1997 to 37.3 mmsf - 3/8" in 1998, and an average price decrease of 5%. The decrease in unit volume sold to third parties was due to scheduled downtime resulting from the modernization program undertaken at Lillooet and slower than expected ramp-up of this facility.

Cost of veneer products sold in 1998 was $9.0 million compared to $9.7 million in 1997, representing a decrease of $0.7 million or 7%. This decrease was mainly due to a 33% decrease in unit sales volume due to scheduled downtime and subsequent ramp-up associated with the modernization program at Lillooet during 1998 and high log costs. The veneer gross margin in 1998 was (23)% compared to 14% in 1997, reflecting lower sales volumes, higher per-unit production costs and lower selling prices.

OSB

OSB Shipments



Sales of OSB in 1998 were $199.8 million compared to $127.8 million in 1997, representing an increase of $72.0 million or 56%. This increase was due to a 10% increase in unit volume from 749.5 mmsf - 3/8" in 1997 to 827.2 mmsf - 3/8" in 1998, and an average price increase of 42%. The increased unit volume was due to capacity improvements at the 100 Mile House facility and completion of the production ramp-up at the Grande Prairie mill. By the end of 1998, the Grande Prairie mill was running at approximately 94% of annual capacity.

Cost of OSB products sold in 1998 was $125.8 million compared to $122.1 million in 1997, representing an increase of $3.7 million or 3%. This increase was due to a 10% increase in unit sales volume resulting from the completion of ramp-up at the Grande Prairie mill and capacity improvements at the 100 Mile House OSB facility. The OSB gross margin in 1998 was 37% compared to 4% in 1997, primarily reflecting the 42% increase in selling prices.

Wood chips

Sales of wood chips to third parties in 1998 were $9.4 million compared to $13.6 million in 1997, representing a decrease of $4.2 million or 31%. This decrease was the result of lower unit volumes arising from the closure of the 100 Mile House sawmill in mid-1998, and reduced production in Lillooet due to the veneer plant modernization. Unit volume for chips was 131.0 mbdu in 1998, compared to 195.1 mbdu in 1997. Prices increased 3% in 1998 over 1997.

Selling and administration

Selling and administration expense in 1998 was $16.2 million compared to $12.2 million in 1997, an increase of $4.0 million or 33%. This increase was mainly attributable to increases in salary expense, professional fees, R&D costs and bank charges.

Amortization of capital assets

Amortization of capital assets in 1998 was $28.8 million compared to $27.1 million in 1997, representing an increase of $1.7 million or 6%. This slight increase was mainly due to additional amortization of costs associated with the Grande Prairie OSB mill and 100 Mile House OSB mill due to increased production. OSB facilities are amortized on the units-of-production method, based on the estimated useful life of the assets at normal production levels over 15 years.

Finance expense

Finance expense in 1998 was $47.8 million compared to $32.1 million in 1997, representing an increase of $15.7 million or 49%. This increase reflects a full year's interest on the July 1997 US$232.0 million senior debt issue, which was reduced in 1998 to US$220.0 million. Finance expense was also negatively affected by the decline in the Canadian dollar against the U.S. dollar during 1998, since interest payments on the long-term debt are made in U.S. dollars. In addition, increased amortization of deferred foreign exchange losses on the long-term debt principal also negatively affected total finance expense.

Income taxes

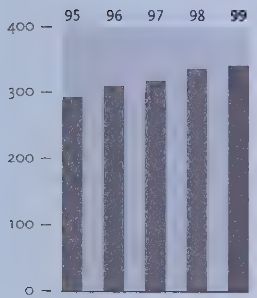
In 1998, the Company recovered $2.7 million in income tax expense, compared to a recovery of $17.1 million in 1997, a reduction in recovery of $14.4 million as a result of the improved financial results.

Liquidity and capital resources

The Company's operations generated $94.8 million of cash before changes in non-cash working capital in fiscal 1999 as compared to generating $24.4 million in fiscal 1998. Non-cash working capital increased $12.0 million in 1999 after having increased $7.0 million in 1998. The increase in non-cash working capital in 1999 was due to higher accounts receivable and inventory levels offset by higher accounts payable levels.

The ratio of current assets to current liabilities was 1.6 to 1 at December 31, 1999, compared to 1.7 to 1 at December 31, 1998. The ratio would have increased significantly during the year except for repayment of debt of $55.2 million and additions to capital assets of $39.3 million. The additions to capital assets include $27 million in construction in progress, which is primarily a new OSB facility in High Level, Alberta. The total cost of this facility is budgeted at $240 million and will be funded and owned equally between Ainsworth Lumber Co. Ltd. and Grant Forest Products Ltd., an eastern-based OSB producer.

Net Capital Assets
in millions of dollars



In 1999, financing activities included the acquisition by the Company of $49.5 million (US$33.5 million) face value of its own senior debt in the market for total cash consideration of $54.9 million. The loss on repurchase of $5.7 million was included in financing expense, as was a realization of a foreign exchange loss and other deferred charges totalling $5.7 million. At current exchange rates, the estimated annual cash interest savings on the 1999 debt redemptions are $6 million. At the end of 1999, the Company had US$186.5 million of senior debt outstanding.

In 1998, financing activities included the acquisition by the Company of $18.3 million (US$12.0 million) face value of its own senior debt in the market for total cash consideration of $16.3 million (US$10.7 million). The gain on repurchase of $2.0 million was offset by the realization of a foreign exchange loss and other deferred charges totalling $2.8 million. At the end of 1998, the Company had US$220.0 million of senior debt outstanding.

Investing activities included capital asset additions of $39.3 million in 1999 compared to $48.6 million in 1998. For 1999, the significant expenditures were for the lumber facility at $2.7 million, veneer and plywood $4.2 million, existing OSB operations $10.2 million, construction in progress (primarily High Level) $17.2 million, timber rights $0.3 million and capital roads $4.6 million. In 1998, significant capital expenditures were for the solid wood modernization program at $33.0 million, the OSB facilities $3.0 million, timber rights $2.0 million and capital logging roads $7.0 million.

The Company expects that operating results in 2000 will generate sufficient working capital to fund current operations, including interest payments, maintenance and capital expenditures of $15.0 million, and leave a significant surplus, which may be used for further debt reduction and/or funding its share of costs for the new High Level plant. Additionally, the Company has committed to beginning construction on a second line at its Grande Prairie facility. The capital cost of this expansion is estimated at $150 million. The Company is currently reviewing all its options to fund these expansions. As a backup it has its bank credit facility, which provides $60.0 million of borrowing capacity.

Year 2000 issues

The Company has not experienced any adverse events as a result of the Y2K problem. In both our operations and major business applications no negative events have occurred. The Company estimates that the total cumulative cost attributed to addressing Year 2000 issues was not material. These costs include both internal and external personnel costs related to modifying the systems, as well as hardware and software purchases. Purchases of hardware and software were capitalized in accordance with normal policy. Personnel and other costs related to the project were expensed as incurred.

Management's Responsibility for Financial Reporting

The management of Ainsworth Lumber Co. Ltd. is responsible for the preparation as well as the integrity of the accompanying consolidated financial statements and all related financial data contained in the annual report. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and necessarily the best estimates and judgements of management. The Company has developed a system of internal accounting controls over the financial reporting process designed to provide reasonable assurance that relevant and reliable information is produced.

The financial statements have been examined by the Company's auditors, Deloitte & Touche LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing management in the performance of its responsibilities for financial reporting. The Board exercises its responsibility through the Audit Committee comprised of three Directors, two of whom are not officers of the Company.

The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The Committee reports its findings to the Board of Directors for their consideration in approving the consolidated financial statements for issuance to the shareholders.

Chairman & Chief Executive Officer
Vancouver, British Columbia — February 11, 2000

Chief Financial Officer

Auditors' Report

To the shareholders of Ainsworth Lumber Co. Ltd.

We have audited the consolidated balance sheets of Ainsworth Lumber Co. Ltd. as at December 31, 1999, and December 31, 1998, and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999, and December 31, 1998, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia — February 11, 2000

CONSOLIDATED BALANCE SHEETS

Years ended December 31 (dollars in thousands)	Notes	1999	1998
Assets			
Current assets			
Cash and temporary investments		**$ —**	$ 6,735
Accounts receivable		**31,441**	26,914
Income taxes recoverable		**—**	857
Inventories	2	**68,080**	56,050
Prepaid expenses		**873**	1,109
		100,394	91,665
Capital assets	3	**339,903**	335,349
Other assets	4	**26,907**	51,972
		$ 467,204	$ 478,986
Liabilities and shareholders' equity			
Current liabilities			
Bank indebtedness		**$ 6,842**	$ —
Accounts payable and accrued liabilities		**55,821**	51,611
Income taxes payable		**746**	883
Current portion of long-term debt	7	**488**	515
		63,897	53,009
Reforestation obligation	6	**10,950**	9,630
Long-term debt	7	**264,143**	330,776
Future income taxes		**27,701**	8,675
		366,691	402,090
Shareholders' equity			
Capital stock	8	**53,083**	53,058
Retained earnings		**47,430**	23,838
		100,513	76,896
		$ 467,204	$ 478,986
Commitments and contingencies	14		

Approved by the board:

Director *Director*

CONSOLIDATED STATEMENTS OF INCOME & RETAINED EARNINGS

Years ended December 31 *(dollars in thousands, except per-share amounts)*	Notes	1999	1998
Sales		$ 433,382	$ 349,056
Cost and expenses			
Costs of products sold		283,603	271,303
Selling and administration		21,335	16,187
		304,938	287,490
Operating earnings before amortization		128,444	61,566
Amortization of capital assets		34,629	28,758
Operating earnings		93,815	32,808
Finance expense			
Interest charges		(44,812)	(39,864)
Amortization charges		(9,905)	(7,986)
	9	(54,717)	(47,850)
Interest and other income		4,786	4,432
Other expense	10	(330)	(1,551)
		(50,261)	(44,969)
Income (loss) before income taxes		43,554	(12,161)
Income tax expense (recovery)	11	19,962	(2,682)
Net income (loss)		23,592	(9,479)
Retained earnings, beginning of year		23,838	33,317
Retained earnings, end of year		$ 47,430	$ 23,838
Earnings (loss) per share		$ 1.62	$ (0.65)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (dollars in thousands)	Notes	1999	1998
Operating activities			
Net income (loss)		**$ 23,592**	$ (9,479)
Amounts not requiring an outlay of cash			
Amortization of capital assets		**34,629**	28,758
Amortization of financing costs		**3,415**	2,425
Amortization of debt discount		**1,807**	1,275
Amortization of deferred foreign exchange loss		**4,683**	4,286
Loss (gain) on purchase of long-term debt		**5,693**	(2,013)
(Gain) loss on disposal of capital assets		**(2)**	1,192
Reforestation obligation		**1,924**	1,655
Future income taxes		**19,026**	(3,745)
Working capital provided by operations		**94,767**	24,354
Change in non-cash operating working capital	17	**(11,988)**	(6,952)
		82,779	17,402
Financing activities			
Capital lease obligations		**(390)**	(213)
Proceeds on issuance of Class B common shares		**25**	24
Purchase of long-term debt		**(54,887)**	(16,266)
		(55,252)	(16,455)
Investing activities			
Additions to capital assets		**(39,320)**	(48,648)
Additions to other assets		**(1,924)**	(2,583)
Proceeds on disposal of capital assets		**140**	809
		(41,104)	(50,422)
Net cash outflow		**(13,577)**	(49,475)
Cash, beginning of year		**6,735**	56,210
(Bank indebtedness) cash, end of year		**$ (6,842)**	$ 6,735
Supplemental disclosure of cash flow information			
Interest paid		**$ 42,939**	$ 41,408
Interest received		**$ 114**	$ 987
Income taxes paid		**$ 1,579**	$ 672
Income tax refund received		**$ 865**	$ —

Years ended December 31, 1999 and 1998
Figures in tables are in thousands of dollars, unless otherwise indicated.

1. Significant accounting policies

These consolidated financial statements have been prepared in Canadian dollars in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and reflect the following significant accounting policies. Management has made assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

Canadian GAAP differs in certain respects from accounting principles generally accepted in the United States ("U.S. GAAP") as explained in Note 19.

The significant policies are:

(a) Basis of consolidation
These consolidated financial statements include the accounts of Ainsworth Lumber Co. Ltd. and its wholly-owned subsidiary Ainsworth Lumber Inc. On March 31, 1999, the assets of Ainsworth Lumber Inc. were transferred to Ainsworth Lumber Co. Ltd. and effective December 17, 1999, the subsidiary was wound up.

(b) Inventories
Logs, lumber and panel products are valued at the lower of average cost and net realizable value. Materials and supplies are valued at cost.

(c) Property, plant and equipment
Property, plant and equipment are stated at cost, including capitalized debt financing, interest and start-up costs incurred for major projects during the period of construction. Oriented strand board facilities are amortized on the units-of-production method based on the estimated useful life of the assets at normal production levels over 15 years. Other panel product mills, sawmills and other assets are amortized on the declining balance basis at annual rates based on the estimated useful lives of the assets as follows:

Asset	*Rate*
Buildings	5%
Machinery and equipment	12% – 20%
Office equipment	15%

(d) Timber and logging roads
Timber rights and logging roads are stated at cost and are amortized on the basis of the volume of timber cut.

(e) Investments
Investments are valued at the lower of cost and net realizable value.

(f) Financing and debt discount costs
Costs relating to term and capital debt are amortized on the straight-line basis over the term of the related debt.

(g) Reforestation obligation
Timber is harvested under various licences issued by the Provinces of British Columbia and Alberta. The future estimated reforestation obligation is accrued and charged to earnings on the basis of the volume of timber cut.

(h) Foreign currency translation
Transactions denominated in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the year-end exchange rate. Exchange gains and losses are included in earnings except for unrealized foreign exchange gains and losses on long-term debt, which are deferred and amortized over the term of the debt. Exchange gains and losses related to long-term debt are shown as interest expense when included in earnings.

(i) Earnings per share
Earnings per share have been calculated on the weighted average number of common shares outstanding during the periods. Fully diluted earnings per share calculations have not been presented as these would not differ materially from basic earnings per share.

(j) Income taxes
During the year, the Company elected early adoption of the new Recommendations of the Canadian Institute of Chartered Accountants relating to the accounting for income taxes. Under this new accounting policy future income taxes reflect the tax effect of differences between the book and tax basis of assets and liabilities. Previously, deferred income taxes reflected the tax effect of revenue and expense items reported for accounting purposes in periods different from those for tax purposes. The Company elected not to restate prior years' financial statements as it determined that the adoption of this standard would not have a material impact on the Company's financial position or results of operations in the current or preceding years.

(k) Employee participation share plan
The Company has an employee participation share plan, which is described in Note 8. No compensation expense is recognized for these plans when stock is issued to employees. Any consideration paid by employees on purchase of stock is credited to share capital. If stock is repurchased from employees, the excess of the consideration paid over the carrying amount of the stock is charged to retained earnings.

(l) Statement of cash flows
In accordance with recent recommendations of the Canadian Institute of Chartered Accountants, the Company has retroactively restated its basis of presenting cash flows. Cash includes cash and temporary investments.

(m) Comparative figures
Certain of the prior year comparative figures have been reclassified to conform to the current year's presentation.

2. Inventories

	1999	1998
Logs	**$ 34,536**	$ 30,354
Lumber	**7,418**	4,815
Panel products	**12,734**	7,983
Materials and supplies	**13,392**	12,898
	$ 68,080	$ 56,050

3. Capital assets

	Cost	Accumulated Amortization	1999 Net Book Value	1998 Net Book Value
Property, plant and equipment				
Panel product mills	$ 318,292	$ 86,445	$ 231,847	$ 246,417
Sawmills	72,129	28,890	43,239	45,580
Land	1,832	—	1,832	1,832
Other	6,224	3,703	2,521	3,061
Construction in progress *(Note 20)*	26,951	—	26,951	4,552
	$ 425,428	$ 119,038	306,390	301,442
Timber and logging roads				
Timber rights and development costs	$ 20,678	$ 8,039	12,639	13,666
Logging roads	27,076	6,202	20,874	20,241
	$ 47,754	$ 14,241	33,513	33,907
			$ 339,903	$ 335,349

4. Other assets

	1999	1998
Advances, investments and deposits	$ 4,531	$ 3,847
Deferred pension costs	5,027	4,001
Deferred foreign exchange loss	7,214	30,573
Unamortized financing costs	10,135	13,551
	$ 26,907	$ 51,972

5. Bank loan facilities

The Company has available a three-year revolving credit agreement expiring in 2001 of $60,000,000 with interest rates of prime plus 1.5% or the bankers' acceptance rate plus 2.5% on Canadian dollar loans. Loans in U.S. dollars have interest rates of the reference rate plus 0.5% or LIBOR plus 2.5%.

The credit facilities are secured by a first lien on all assets of the Company.

As at December 31, 1999, the Company has outstanding letters of credit of $17,212,295 to support the Company's indebtedness to the bank including settlement risk relating to direct electronic funds transfers and credit cards.

6. Reforestation obligation

	1999	1998
Balance at beginning of year	$ 13,243	$ 11,588
Expense for the year	5,155	4,417
	18,398	16,005
Paid during the year	3,239	2,762
Balance at end of year	$ 15,159	$ 13,243
Current, included in accrued liabilities	$ 4,209	$ 3,613
Long-term	10,950	9,630
	$ 15,159	$ 13,243

7. Long-term debt

	1999	1998
US$186,500,000 Senior Secured Notes (1998—US$220,000,000) due July 15, 2007, with interest payable semi-annually at 12.5% per annum	**$ 269,175**	$ 337,260
Capital lease obligations	**817**	1,199
	269,992	338,459
Unamortized deferred debt discount	**(5,361)**	(7,168)
	264,631	331,291
Less: Current portion	**(488)**	(515)
	$ 264,143	$ 330,776

The US$186,500,000 Senior Secured Notes are redeemable and secured by a first priority fixed charge on the Company's mills and a second priority floating charge on the Company's other properties and assets.

8. Capital stock

	Common Shares		*Class B Common Shares*		
	Shares	Amount	Shares	Amount	Total Amount
Balance at Dec. 31, 1997	14,544,800	$ 53,016	120,000	$ 18	$ 53,034
Issue of Class B common shares, August 11, 1998	—	—	157,500	24	24
Balance at Dec. 31, 1998	14,544,800	$ 53,016	277,500	$ 42	$ 53,058
Issue of Class B common shares, June 25, 1999	—	—	170,000	25	25
Balance at Dec. 31, 1999	14,544,800	$ 53,016	447,500	$ 67	$ 53,083

(a) The Company's authorized share capital is as follows:

(i) 100,000,000 common shares without par value;

(ii) 1,500,000 Class B non-voting common shares without par value, of which 717,500 have been designated for an employee participation share plan. The designated Class B common shares are convertible into the number of common shares equivalent to the ratio of (a) the future appreciation in market value of the common shares from the date the directors resolve to issue the Class B shares, divided by (b) the market value of the common shares when the conversion and completion of vesting occurs on the fifth anniversary. Vesting occurs equally upon the third, fourth and fifth anniversaries; and

(iii) 100,000,000 preferred shares without par value, of which 300,000 have been designated Series 1 and 4,000,000 have been designated Series 2. The Series 1 preferred shares are non-voting, redeemable at the issue price of $10 and are entitled to a 6% non-cumulative dividend. The Series 2 preferred shares are non-voting with a cumulative dividend rate equal to 72% of bank prime rate and are redeemable by the Company at any time or retractable by the holder any time after five years from date of issue.

(b) The Company established a stock option plan for directors, senior management and employees. As at December 31, 1998, the Company had reserved 157,200 common shares for issue under this plan at a price of $10 per share. Prior to the expiration of the stock option plan in 1999, 9,800 shares were exercised for a total consideration of $98,000.

(c) Employee Participation Share Plan

Date Issued	Conversion Base Price	Common Share Issue Price	Number of Shares Vested	Class B Shares Issued	Total Consideration
December 18, 1996	$ 6.00	$ 0.15	40,000	120,000	$ 18,000
August 11, 1998	3.20	0.15	—	157,500	23,625
June 25, 1999	3.00	0.15	—	170,000	25,500
			40,000	447,500	$ 67,125

Market value per common share at December 31, 1999, was $6.10 (1998—$2.99).

9. Finance expense

	1999	1998
Current debt	$ **900**	$ 321
Long-term debt	**53,817**	47,529
	$ **54,717**	$ 47,850

Finance expense on long-term debt includes the amortization of deferred financing costs, amortization of deferred debt discounts and amortization of deferred unrealized foreign exchange losses on translation of long-term debt of $3,415,360, $1,806,747 and $4,683,022 respectively in 1999 and $2,425,176, $1,275,192 and $4,285,739 respectively in 1998.

10. Other expense

	1999	1998
Write-down of sawmill facilities	$ **—**	$ 1,358
Sawmill closure costs	**330**	193
	$ **330**	$ 1,551

During 1997, the Company commenced a solid wood modernization program, which involved the consolidation of the Company's three sawmills into one large facility and an upgrade of the veneer and plywood plants. As a result of this program one sawmill was permanently closed in 1997 and the second sawmill was permanently closed in 1998.

11. Income taxes

The adjusted losses for purposes of providing for income taxes are:

	1999	1998
Income (loss) before income taxes	$ **43,554**	$ (12,161)
Non-deductible items	**2,654**	1,401
Adjusted income (loss)	$ **46,208**	$ (10,760)

A reconciliation of the statutory tax rate to the effective tax rate on adjusted income (losses) is as follows:

	1999		1998	
		in percent		*in percent*
Federal income tax, net	$ **10,209**	**22.1**	$ (2,202)	(20.5)
Provincial taxes, net	**7,477**	**16.2**	(1,543)	(14.3)
Other	**1,340**	**2.9**	—	—
	19,026	**41.2**	(3,745)	(34.8)
Large corporation tax	**936**	**2.0**	1,063	9.9
	$ **19,962**	**43.2**	$ (2,682)	(24.9)
Comprised of:				
Current taxes	$ **936**		$ 1,063	
Future income tax cost (benefit)	**19,026**		(3,745)	
	$ **19,962**		$ (2,682)	

Temporary differences and tax loss carryforwards that give rise to future income tax assets and liabilities are as follows:

	1999	1998
Future tax liability (asset):		
Temporary timing differences	**$ 56,727**	$ 53,038
Tax loss carryforwards	**(29,026)**	(44,363)
Future income tax liability	**$ 27,701**	$ 8,675

12. Lease commitments

The Company is committed to capital and operating lease payments in respect of premises and equipment as follows:

	Capital Leases	Operating Leases
2000	$ 504	$ 4,669
2001	287	3,902
2002	45	2,866
2003	—	1,719
2004	—	1,088
Thereafter	—	2,186
Total minimum lease payments	836	$ 16,430
Imputed interest at a weighted average of 6.2%	19	
Capital lease obligations	$ 817	

13. Pension plans

The Company maintains a defined benefit pension plan for salaried and certain hourly employees. As at December 31, 1999, the actuarial calculation of the present value of accrued pension benefits and the market value of pension fund assets to provide these benefits are as follows:

	1999
Accrued pension benefits	**$ 29,642**
Pension fund assets	**$ 36,239**

The Company recorded pension expense of $1,039,000 and $1,052,000 for the years ended December 31, 1999 and 1998, respectively.

14. Commitments and contingencies

The Company is committed to further expenditures of approximately $100,000,000 for construction of the High Level plant.

The Company has claimed a special investment tax credit in respect of its investment in the Grande Prairie wood-processing facilities. The claim has been disallowed by the Minister of National Revenue and the Company has filed a notice of objection. Any future credit realized against federal taxes otherwise payable will be treated as a reduction in capital cost of the Grande Prairie assets.

15. Related party transactions

The Company had transactions with companies owned by or related to its officers and directors as follows:

	1999	1998
Rental charges for mobile forestry and transportation equipment at normal commercial terms and prices	**$ 140**	$ 168
Amounts due from affiliated companies included in accounts receivable	**24**	24
Acquisition of capital assets	**15**	—
Amounts due from officers and affiliated companies included in other assets	**1,051**	1,047
Amounts due to affiliated companies included in accounts payable	**13**	—

16. Segmented information

Segmented information is reported in accordance with the basis on which management organizes the business for making operating decisions and assessing performance. These reporting segments are summarized as follows:

Lumber—Consists of logs harvested in British Columbia which are converted into lumber and chips.

Veneer and specialty plywood—Consists of logs harvested in British Columbia which are converted into veneer and chips. The veneer is then manufactured into specialty plywood or sold.

OSB—Consists of logs harvested in Alberta and British Columbia which are converted into oriented strand board.

Business Segments	Sales	Amortization	Operating Earnings (Loss)	Assets	Capital Expenditures
1999					
Lumber and chips	**$ 82,517**	**$ 6,483**	**$ (366)**	**$ 62,006**	**$ 4,084**
Veneer, specialty plywood and chips	**78,870**	**4,808**	**6,860**	**54,850**	**7,382**
OSB	**271,995**	**22,010**	**109,981**	**282,633**	**25,999**
Selling and administration	**—**	**1,328**	**(22,660)**	**5,136**	**1,855**
Non-segmented	**—**	**—**	**—**	**62,579**	**—**
	$ 433,382	**$ 34,629**	**$ 93,815**	**$ 467,204**	**$ 39,320**
1998					
Lumber and chips	$ 83,651	$ 4,773	$ (799)	$ 65,305	$ 25,799
Veneer, specialty plywood and chips	65,638	3,035	(3,191)	54,237	14,960
OSB	199,767	19,586	54,348	283,764	5,788
Selling and administration	—	1,364	(17,550)	6,235	2,101
Non-segmented	—	—	—	69,445	—
	$ 349,056	$ 28,758	$ 32,808	$ 478,986	$ 48,648

All capital assets are located in Canada.

	1999	1998
Geographic sales information		
Canada	**$ 90,068**	$ 80,930
U.S.A.	**274,178**	218,634
Europe	**17,068**	17,173
Japan	**52,068**	32,319
	$ 433,382	$ 349,056

17. Change in non-cash operating working capital

	1999	1998
Accounts receivable	**$ (4,527)**	$ 4,729
Income taxes recoverable	**857**	(32)
Inventories	**(12,030)**	7,309
Prepaid expenses	**236**	1,730
Accounts payable and accrued liabilities	**3,613**	(21,571)
Income taxes payable	**(137)**	883
	$ (11,988)	$ (6,952)

18. Financial instruments

(a) Financial and credit risk

The financial risk is the risk that the value of the Company's financial instruments will vary due to fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to interest and foreign currency risk.

The Company does not have a significant exposure to any individual customer or counterparty. Concentrations of credit risk on trade accounts receivable are with customers in the forestry industry who are located in Canada and the United States.

(b) Fair values

The fair value of the Company's cash and temporary investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities was estimated to approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The fair value of the long-term debt is estimated using present value techniques and assumptions concerning the amount and timing of expected future cash flows and discount rates that reflect the approximate level of risk for the instrument. The estimated fair value may differ from the amount that could be realized in an immediate settlement of the instruments.

The carrying value and fair value of the long-term debt are as follows:

	1999		1998	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt				
Senior notes	**$ 269,175**	**$ 261,621**	$ 337,260	$ 376,247
Capital leases	**817**	**817**	1,199	1,199
	$ 269,992	**$ 262,438**	$ 338,459	$ 377,446

19. U.S. GAAP

As indicated in Note 1, these consolidated financial statements have been prepared in accordance with Canadian GAAP, which, in the case of the Company, conforms in all material respects with U.S. GAAP, except as set forth below:

	1999	1998
(a) Adjustments to assets, liabilities and shareholders' equity		
(i) Total assets in accordance with Canadian GAAP	**$ 467,204**	$ 478,986
Write-off of capitalized start-up costs *(1)*	**(6,197)**	(6,780)
Write-off of deferred foreign currency translation losses *(2)*	**(7,214)**	(30,573)
Total assets in accordance with U.S. GAAP	**$ 453,793**	$ 441,633
(ii) Total liabilities in accordance with Canadian GAAP	**$ 366,691**	$ 402,090
Deferred income taxes relating to:		
Write-off of capitalized start-up costs *(1)*	**(2,380)**	(2,692)
Write-off of deferred foreign currency translation losses *(2)*	**(2,771)**	(10,689)
Application of SFAS 109 *(3)*	**—**	(12)
Total liabilities in accordance with U.S. GAAP	**$ 361,540**	$ 388,697
(iii) Total shareholders' equity in accordance with Canadian GAAP	**$ 100,513**	$ 76,896
Change in retained earnings relating to:		
Write-off of capitalized start-up costs *(1)*	**(3,817)**	(4,088)
Write-off of deferred foreign currency translation losses *(2)*	**(4,443)**	(19,884)
Application of SFAS 109 *(3)*	**—**	12
Variable employee stock compensation *(4)*	**—**	—
Total shareholders' equity in accordance with U.S. GAAP	**$ 92,253**	$ 52,936
(b) Adjustments to earnings		
Net income (loss) in accordance with Canadian GAAP	**$ 23,592**	$ (9,479)
Reversal of amortization of capitalized start-up costs, net of deferred taxes *(1)*	**284**	350
Deferred foreign currency translation gains (losses), net of deferred income taxes *(2)*	**15,441**	(12,455)
Variable employee stock compensation *(4)*	**(148)**	—
Application of SFAS 109 *(3)*:		
Increase in provision for deferred income taxes	**—**	333
Net income (loss) in accordance with U.S. GAAP	**$ 39,169**	$ (21,251)
Basic earnings (loss) per share in accordance with U.S. GAAP *(dollars)*	**$ 2.69**	$ (1.46)

(1) Under U.S. GAAP, the direct operating losses arising during the start-up phase of the oriented strand board facilities, which were capitalized under Canadian GAAP, are included in earnings.

(2) Under U.S. GAAP, the unrealized exchange losses arising from the translation of long-term debt repayable in U.S. dollars, which are deferred under Canadian GAAP (see Note 7), are included in earnings.

(3) Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes," issued under U.S. GAAP, is described as the liability method whereby the deferred income tax liability is calculated using current tax rates and is adjusted if those tax rates are changed. During 1999, the Company adopted new Canadian GAAP standards that conform to U.S. GAAP. For 1998 the Company used the deferred credit method to calculate its deferred tax liability.

(4) Under U.S. GAAP, earnings would be reduced to reflect compensatory portions of the Company's employee participation share plan, a variable stock compensation program. There would be a corresponding increase in additional paid-up capital, and as a result there would be no overall impact on shareholders' equity.

(5) Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," issued under U.S. GAAP, requires the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Reclassification of financial statements for earlier periods presented is required. SFAS 130 does not currently apply to the Company as there are no items of comprehensive income in any period presented.

(6) Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," issued under U.S. GAAP, requires the reporting of derivative instruments information in annual and interim reports to shareholders. The impact of SFAS 133 on the Company's financial statements is not expected to be material.

20. The High Level project

During 1999 the Company agreed to jointly develop an oriented strand board facility in High Level, Alberta. Major assets, including the plant, will be held by a bare trustee corporation, on behalf of the Company and a third party.

As at December 31, 1999, the Company's interest is reported in the amount of $13,469,677 as a proportionate interest in capital assets under construction (Note 3).

Coincident with completion of the plant construction, the Company will jointly control a new company that will be responsible for operations at High Level. At that time, the Company will reflect its investment in the new company as an interest in jointly controlled operations. Major assets will continue to be held by the bare trustee corporation following start-up of operations.

21. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

FIVE-YEAR REVIEW

Years ended December 31	**1999**	1998	1997	1996	1995
Sales and earnings *($ millions)*					
Sales	**433.4**	349.1	308.2	299.6	258.2
Cost of products sold	**283.6**	271.3	288.1	263.4	202.0
Depreciation and amortization	**34.6**	28.8	27.1	22.9	17.0
Selling and administration	**21.3**	16.2	12.2	13.2	11.5
EBITDA	**133.2**	66.0	15.1	26.6	47.9
Earnings (loss) from operations	**93.8**	32.8	(19.1)	0.1	27.7
Interest and other income	**4.8**	4.4	7.2	3.6	3.2
Finance expense	**54.7**	47.8	32.1	12.1	6.4
Income taxes (recovery)	**20.0**	(2.7)	(17.0)	(2.0)	9.9
Net income (loss)	**23.6**	(9.5)	(28.3)	(6.4)	14.6
Financial position *($ millions)*					
Working capital	**36.5**	38.7	81.9	(2.2)	22.4
Capital assets, net	**339.9**	335.3	317.0	310.2	292.7
Long-term debt	**264.1**	330.8	324.5	133.0	139.2
Reforestation obligation	**11.0**	9.6	8.7	6.3	5.6
Deferred income tax	**27.7**	8.7	12.4	30.2	25.5
Capital debt	**—**	—	—	30.0	30.0
Common shareholders' equity	**100.5**	76.9	86.4	114.6	121.1
Capital expenditures	**39.3**	48.6	37.2	41.4	38.3
Per common share *(dollars)*					
Net income (loss)	**1.62**	(0.65)	(1.94)	(0.44)	1.00
Common shareholders' equity	**6.91**	5.29	5.94	7.88	8.31
Operating cash flow	**5.69**	1.20	0.24	2.27	1.71
Production statistics					
Stud lumber *(mmfbm)*	**168**	157	227	245	221
Veneer *(mmsf - 3/8")*	**136**	94	155	151	152
Specialty plywood *(mmsf - 3/8")*	**115**	87	85	76	71
OSB *(mmsf - 3/8")*	**924**	828	739	566	293
Chips *(mbdu)*	**136**	131	195	198	209

CORPORATE INFORMATION

Board of Directors

Allen Ainsworth
Vancouver, B.C.

Brian Ainsworth
Vancouver, B.C.

Catherine Ainsworth
Vancouver, B.C.

David Ainsworth
100 Mile House, B.C.

Susan Ainsworth
100 Mile House, B.C.

Gordon Green
Sidney, B.C.

Morley Koffman, Q.C.
Vancouver, B.C.

Gordon Lancaster
West Vancouver, B.C.

Officers

Allen Ainsworth
President, Chief Operating Officer

Brian Ainsworth
Chairman, Chief Executive Officer

Catherine Ainsworth
Chief Financial Officer and Secretary

Michael Ainsworth
Vice President, Marketing and Business Development

Steven Blacklock
Vice President, Finance

Steven Silveira
Senior Vice President, Operations

Contacts

Lumber
604 661.3250 Telephone
604 661.3275 Facsimile

OSB
604 661.3260 Telephone
604 661.3275 Facsimile

Specialty panel
604 661.3280 Telephone
604 661.3275 Facsimile

Internet
www.ainsworth.ca

Trading symbol
ANS on Toronto Stock Exchange

Auditors
Deloitte & Touche LLP
Vancouver, B.C.

Solicitors
Koffman Kalef
Vancouver, B.C.

Transfer agent
Montreal Trust Company
Vancouver, B.C.

AGM
The Annual General Meeting of shareholders will be held on Wednesday, May 10, 2000, at 10 a.m. at the Hyatt Hotel, 655 Burrard St.,Vancouver B.C.

GLOSSARY

Certain terms and abbreviations used in this report are defined here.

bfbm
One billion board feet, being one billion square feet of lumber, one inch thick.

cubic metre (m^3)
One cubic metre equals 35.31 cubic feet and is one cubic metre of solid wood, B.C. metric scale, as determined under *The Forest Act of B.C.*

fibre
The raw material used in the production of lumber, veneer, OSB and pulp, consisting primarily of logs and wood chips.

finger-joined lumber
Lumber in which shorter lengths of lumber have been machined and glued together to form longer, standard lengths.

forest licence
A licence granted by the Ministry of Forests of British Columbia, which entitles the holder to cut a specific volume of timber on government lands.

I-joist
A replacement product for natural lumber joists used in residential and non-residential construction, made of two pieces of lumber or laminated veneer lumber and web material.

mbdu
One thousand bone dry units. A bone dry unit is 2,400 pounds of wood chips adjusted to achieve a theoretical zero percent moisture content.

metric lumber
Structural and non-structural lumber products of metric dimensions (width, length, depth) used in overseas markets.

mfbm
One thousand board feet, being one thousand square feet of lumber, one inch thick.

mmfbm
One million board feet, being one million square feet of lumber, one inch thick.

msf - 3/8"
One thousand square feet, 3/8 of an inch thick.

mmsf - 3/8"
One million square feet, 3/8 of an inch thick.

OSB
Oriented strand board; a specialized type of waferboard that utilizes lower-quality, relatively abundant and fast-growing deciduous and coniferous trees and is made by processing round wood into uniform strands, coating these strands with wax or resin and then orienting them into a mat.

Pourform HDO®
The Company's trademark for its high-density overlaid concrete-forming panel.

Pourform 107®
The company's trademark for its medium-density overlaid concrete-forming panel.

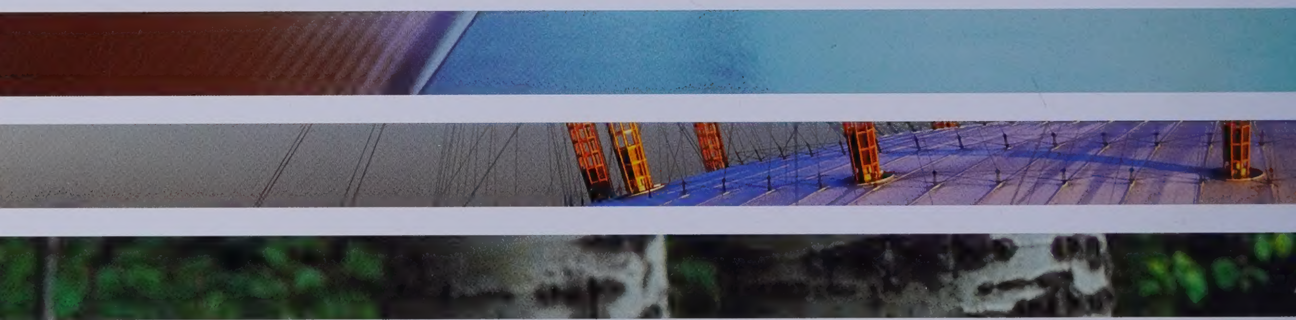
rim board
A wood component that fills the space between the foundation sill plate and bottom plate of a wall or, in second floor construction, between the top plate of the lower floor section and the bottom plate of the upper wall section. The rim board supports wall loads and ties the floor joists together.

SPF
Spruce, pine and fir softwood species.

Transdeck®
The Company's trademark for its resin-coated trailer flooring panel.

webstock
An OSB component with specialized structural properties, used to form the web of an I-joist.

wood chips
Small pieces of wood used to make pulp. The chips are made either from wood waste in a sawmill or from pulp wood cut specifically for this purpose. Wood chips are generally uniform in size and are larger and coarser than sawdust.



Ainsworth Lumber Co. Ltd.
Suite 3194 Bentall 4
1055 Dunsmuir Street
PO BOX 49307
Vancouver BC
Canada V7X 1L3

604 661.3200 Telephone
604 661.3201 Facsimile

www.ainsworth.ca